



ACQUISITION

ASSISTANT SECRETARY OF DEFENSE

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MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
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SUBJECT: Application of Excess Funds on an Earned Value Management Contract

Earned Value Management (EVM) is one of DoD's and Industry's most powerful proven program management tools. Government and Industry program managers use EVM to provide joint situational awareness of program status, to assess cost, schedule, and technical performance on programs, and to support proactive decision-making as program teams navigate constraints and risks in the performance of DoD programs. The Office of Performance Assessments and Root Cause Analyses (PARCA) in OSD serves as the policy and competency owner of EVM for the Department and ensures that EVM guidance is available to constituents.

PARCA recently published the DoD Earned Value Management System Interpretation Guide (EVMSIG) which is the DoD's interpretation of the 32 EVMS Guidelines and serves as the basis for DoD Earned Value Management System (EVMS) compliance activities. The DoD EVMSIG offers flexibility for a variety of program execution and development methodologies. A standard Government interpretation facilitates tailored solutions that meet unique management needs within varying operating environments. An important principle of EVMS outlined in the EVMSIG is a disciplined approach to maintaining EVM baselines.

"To ensure the ongoing integrity of the Contract Budget Base (CBB), budget traceability throughout the lifecycle of a program must be maintained. Current budgets must reconcile to prior budgets in terms of changes to work scope, resources, schedule, and rates so that the impact of contract changes and internal re-planning on overall program growth is visible to all stakeholders"

This includes the tenet that budgets in the baseline directly relate to scope to be completed.

"The establishment of realistic budgets, directly tied to the authorized scope of work, is essential for each organization responsible for performing program effort"

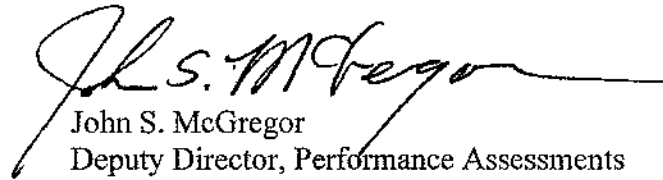
Situations occur where contractors are asked to move budget from control accounts which have cost under-runs and apply the remaining budget to new work; an activity sometimes known as "harvesting under-runs." However, to maintain EVM and EVMS integrity, EVM budget amounts must remain with the scope for which they were budgeted, even where that scope is completed with favorable cost performance. In no cases should underrunning budget in the baseline move as a means to develop new baseline activities.

An underrun to the budget in the CBB does not automatically mean excess funds have become available. Practitioners may erroneously treat EVM budget and contract funding in the same ways. The application of budgets and of funding are distinct and follow separate rules; budget follows EVM rules, while use of funding follows contracting and fiscal rules:

- The term "budget" has a very specific meaning for EVM and refers to the resources estimated to be required to complete the contracted scope of work.
- "Funding" refers to the actual Government dollars obligated on the contract and available for payment for work being accomplished on the contract.
- The amount of obligated funding does not always equal the contract price. There is no rule that requires the CBB to equal either the amount of obligated funding or the contract price.

When the contracted scope has been completed for less than the amount funded, there may exist an opportunity for using that funding for new scope. The ability to use any underrun for new scope becomes a contracting action and must follow prescribed contracting fiscal laws and regulations. When funds that are available due to an underrun are used to acquire new work scope using proper contracting policies and procedures, budget for the new scope should be added to the CBB.

This memo serves to reinforce the information in the EVMSIG regarding maintaining baseline integrity and to provide clarity on the use of excess funding. PARCA supports this direction and will work with the Services to ensure EVM is applied appropriately across the Department.


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cc:
USD(AT&L) Direct Reports